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SUBJECT: INDIA'S LEFT TO PUSH FOR MORE TAXES AND EXPENDITURES IN
2008-2009 BUDGET

REF: DELHI 0604

11. (SBU) SUMMARY: February 25-26, the Communist Party of India-Marxist (CPM) leadership met with Union Finance Minister P. Chidambaram to present the Left's budget proposals prior to Finance Minister's submission of the budget to parliament on Friday, February 29. The Left is hoping to pressure the United Progressive Alliance (UPA) government to adopt a range of measures that would increase taxes and expenditures. Some highlights of the proposals include: reintroduction of long-term capital gains taxes and increasing the short-term gains taxes, writing off debts for small and marginal farmers and increasing food subsidies. While some of the Left's proposals may not be incorporated into the Budget, the Left has been successful in past budgets in increasing expenditures, such as in the national Employees Provident Fund Organization and have had a significant influence in broader economic matters, such as blocking reforms in insurance, pensions and Foreign Direct Investment (FDI). As the political parties prepare for national elections to be called prior to May 2009, the wrangling over this budget will take on greater significance, prompting the Left to take a strong line in pushing its proposals. END SUMMARY.

The Expenditure Side

12. (U) The CPM and its allies, the Communist Party of India (CPI), Forward Bloc (FB) and Revolutionary Socialist Party (RSP), presented their proposals against a backdrop of what they describe as an agrarian crisis in India and rising income disparities. (Note: The complete Left budget proposal is available online at <http://www.cpim.org>. End Note.) The Left argued, "resources have to be mobilized by taxing profits and capital gains, which are increasing at rates many times faster than the overall growth of national income. Myriad tax concessions to corporates and affluent sections, which are nothing but subsidies to the rich, should be progressively eliminated in the backdrop of growing income inequalities. Rather than being obsessed with the growth rate, Budget 2008-09 should concentrate on redistributing the benefits of growth to all sections of the people, particularly the socio-economically weaker sections." The Left outlined the following key goals:

- (i) Significantly increasing public investment in agriculture,
- (ii) Spending 6% of GDP on education,
- (iii) Spending 2-3% of GDP on health,
- (iv) Providing a legal guarantee for at least 100 days of employment for at least one able-bodied person in every rural, urban poor and lower-middle class household,
- (v) Ensuring a comprehensive social security scheme for workers in the unorganized sector,
- (vi) Universalizing the Integrated Child Development Services (ICDS) and
- (vii) Moving towards universal food security.

¶3. (U) The Left's recommendations identified 13 specific areas where more resource must be provided; of which one of the more notable proposals was a Farmers' Debt Relief Commission, with the mandate to write off the debts for small and marginal farmers. The interest rate on farm loans should be reduced to 4 percent (simple interest) from the present 7 percent. The Left also want the food subsidy raised in order to expand procurement operations and to create a universal public distribution system.

¶4. (U) Another important demand was to extend the National Rural Employment Guarantee Assistance (NREGA) to all districts in India. Under this scheme, the GOI guarantees 100 days of employment to a member of a rural family. The Left pushed for extension of NREGA to urban areas as well.

¶5. (U) The Left also demanded budgetary allocation to implement

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the Sachar Committee recommendations on improving the state of minorities, primarily Muslims; higher allocations in development schemes for Scheduled Tribes and Scheduled Castes; housing for the urban poor and a threefold increase in the allocation for ICDS.

The Revenue Side

¶6. (U) On resource generation and taxation issues, the Left had five points for the Finance Minister. It wanted an additional USD 15 billion gross budgetary support for the central Five Year Plan to meet commitments made in 2004 under the Common Minimum Program (CMP) agreed to by the UPA and the Left parties. The Left was opposed to deficit targets laid down by the Fiscal Responsibility and Budgetary Management (FRBM) Act. This Act mandates the Finance Minister to report to the Parliament steps taken to contain fiscal deficit. The Left position was that fiscal deficit targets specified by the FRBM Act restrict development expenditure.

¶7. (U) The government must also accept the recommendations of the Parliamentary Standing Committee on Commerce and rationalize "exorbitant tax concessions" given to Special Economic Zones (SEZs). The Left would like the government to amend the SEZ Act. It has also called for reintroduction of the long-term capital gains tax and an increase in the rate of the short term capital gains tax. The Left was opposed to the increase in the price of petroleum products. Instead, it required withdrawal of the ad valorem duty structure and introduction of specific duties. It also wanted a price stabilization fund for petroleum products to be set up with resources generated through the oil cess. Conceptually, this is similar to the oil pool account which the Government of India dismantled on April 1, 2002.

¶8. (U) Finance Minister Chidambaram will have to give some consideration to the Left's budget as in the past, Left parties have successfully influenced the budget and, in general, have

blocked important economic reform measures. In August 2004, Finance Minister Chidambaram had reduced the interest rate on the national Employees Provident Fund (EPF) from 9.5 percent to 8.5 percent. The Left prevailed on UPA government and forced it to reverse the decision. The government reverted back to 9.5 percent in February 2005. Although the Commerce Ministry is in favor of setting up SEZs, the Left has used its influence to block amendments to SEZ laws. In broader economic issues, the Left has also been instrumental in blocking FDI in retail and insurance, and stopping provident fund reforms planned by the GOI.

19. (SBU) COMMENT: As the last budget prior to national elections expected in 2009, the political parties will be maneuvering during the budget negotiations to extract political benefit, introducing sops that they can claim credit for during the anticipated campaigning. The UPA's dependence on the Left to maintain its coalition government has given the Left significant influence over budgetary matters and economic policy. While the Left's proposals will not all be accepted, the budget will likely reflect aspects of the Left's demand for increased expenditures on various social projects, many of which are already part of the UPA's National Common Minimum Program and some of which are arguably critical areas of needed public investment, such as in health and education. If the Finance Minister can limit the Left's impact to necessary public investments, he will be able to blunt the stifling influence of India's Left as it seeks to block reforms, raise taxes and to expand the public sector.

10 (U) This message was coordinated with AmEmbassy New Delhi
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